About ActionAid

Founded as a British charity in 1972, ActionAid is an international NGO working in 45 countries. We are headquartered in South Africa, and our positions and recommendations reflect the experiences of our staff and partners in Africa, Asia, the Americas and Europe.

Our vision is a world without poverty and injustice in which every person enjoys the right to a life with dignity. Our rights based approach forms the foundation for our work on development, and aims at empowering people to demand their rights, supporting them with campaigning and solidarity movements.

Our key areas of engagement are on tax justice, women’s rights, aid effectiveness, land issues and emergencies response.
Summary

1. ActionAid welcomes the opportunity to feed in to this inquiry. In the below evidence, we will:
   - Illustrate the need for DFID to remain a stand-alone department in order to act as a world leader in delivering effective aid in the post-2015 development context;
   - Illustrate the need for coherence of policies that affect development – to ensure that the UK’s development agenda, as pursued by DFID, is not undermined by the actions of other UK departments;
   - Provide practical examples in the areas of global tax reform and gender equality, priority issues for ActionAid based on our analysis of poverty which shows that consideration of these is essential to achieve a world without poverty and injustice.

2. We include recommendations on government mechanisms needed, including;
   - the role of DFID in facilitating other UK Government departments and other UK organisations to assist developing countries,
   - and the role of DFID in influencing the policies of other Whitehall departments.

Delivering Real Aid - the need for DFID to remain a stand-alone department

3. The Department for International Development (DFID) has been a world leader in poverty reduction, and its establishment in 1997 has sent a strong message that the UK deeply cares about the world’s prosperity and stability.

4. The Department has been continually evolving to answer the challenges of its time, and as the new framework for development that will succeed the Millennium Development Goals (MDGs) is being developed, it must continue to do so.

5. Significant finance will be needed to realise the welcome ambition of the post-2015 development process. Aid will remain crucial for the foreseeable future for some of the poorest and some conflict-affected or conflict-emergent countries. ActionAid believes that aid is far more effective for poor people – and cost effective too – when it is real aid. That is aid which empowers poor women and men to realise their rights, and reduces inequality.¹ It might do this directly, by supporting smallholder farmers and empowering women. Or it might do it indirectly, by supporting tax systems, better governance or economic development. It is accountable, transparent from beginning to end, and gets the most out of every dollar spent. It supports developing countries to make their own decisions.

6. DFID should continue to play a vital role as a world leader in promoting effective aid in line with international principles of transparency, sustainability, inclusivity and developing country ownership. Its ability to do this is due to its expertise that is distinct and unique from the Foreign and Commonwealth Office (FCO), the Ministry of Defence (MoD) and other government departments. As such:

Recommendation 1: The UK government should ensure that DFID remains a standalone department driving efforts to achieve the UK’s development objectives.

Recommendation 2: The UK government should maintain its commitment to spending 0.7% of national income on aid and enshrine this in legislation.

Beyond Aid – Coherence of aid and non-aid policies

7. As we approach the 2015 deadline for the MDGs, discussions about what should follow them offer a historic opportunity to rethink global development. The post-2015 agenda clearly needs to tackle the unfinished business of the MDGs but it also needs to be much more ambitious, being crafted in a world in which gender inequality and inequalities between and within countries are in many cases widening.

8. Real ambition is needed in terms of a global vision for ending poverty and reducing inequality by 2030. And that vision can only be delivered if the ambition is matched with an equally strong commitment to reframing development models – particularly the flawed economic and financial policies that underlie today’s crises. We cannot continue with a global economy that works best for those with the most privilege and money, while the life prospects of a large proportion of the world’s people remain vulnerable.

9. While aid remains crucial, additional alternative financing sources must be a feature of the future development financing framework. In 2013, ActionAid published research into aid dependency in five developing countries – Cambodia, Kenya, Nepal, Nigeria and Tanzania. All five countries raise their own revenue for the majority of their public spending. On average, low-income countries now depend on aid for about a third of their public spending.

10. Continued reductions in aid dependency should be a priority for the government. However, this is only possible if all UK development efforts comply with the development effectiveness commitments made in Paris and Busan. All policy must be transparent, accountable, aligned, coherent, and in support of developing countries' development needs, or at least not contradict the aim of poverty eradication. It is only this coherence of policy that will lead to real results and ensure value for money for the UK taxpayer.

Recommendation 4: The UK government should prioritise increasing coherence of aid and non-aid policies, such as economic, tax, trade and gender policies, in order to reduce aid dependency and deliver real results.

Global tax reform

The role of DFID

11. To insure that aid has a lasting impact and that the most is made from every dollar spent, DFID has a vital role to pay in building the capacity of developing countries.

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One key area is that of increasing the capacity of developing countries’ tax authorities and revenue collection systems.

12. Genuine tax reform could claw back hundreds of billions of dollars a year in revenue lost to developing countries through tax havens and inefficient tax deals. Recouping this level of tax revenue – the most accountable, stable, secure and self-sufficient source of funds – would put even ambitious post-2015 development benchmarks within reach. As such, the return on investment from aid to build developing countries tax capacity is hugely significant.

13. Developing countries are ill-equipped to combat tax avoidance measures routinely undertaken by transnational corporations, such as the use of tax havens to shelter profits from tax. Developing tax administration – the effectiveness and efficiency of the tax system – can be challenging in developing countries. Many of the countries ActionAid works in have made major progress over the last decade or so. This progress includes establishing well-resourced revenue authorities at arm’s length from finance ministries, and legal changes attempting to improve revenue levels from various sources.

14. For example, the tax policy changes in Tanzania have included: establishing the Tanzania Revenue Authority (TRA) in 1996; introducing VAT in 1998 to replace sales tax; a new Income Tax Act in 2004; and revisions to customs policies and administration driven by the East African Community (EAC) Customs Management Act of 2004. DFID has been a key partner providing support to Tanzania, and these changes are said to have contributed to increasing revenues. TRA as a semi-autonomous government agency is perceived to have well educated, skilled and motivated staff.

15. In another example, aid from the UK supported Rwanda to quadruple its own taxes between 1998 and 2006, a period in which DFID support helped with set-up of the tax authority and management systems.

Recommendation 3: DFID should produce an action plan for building the capacity of developing countries’ tax authorities and revenue collection systems to maximise the results and impact of aid.

Coherence between DFID and other Whitehall departments

16. However, providing aid and technical assistance to build developing countries tax capacity is only part of the picture. The UK also has a responsibility to work towards reform of global tax rules that limit the ability of developing country governments to collect the taxes they need to support their citizens.

17. DFID has a key role to play internationally in representing the perspective of developing countries that are working to improve their own domestic tax systems. But the lack of coherence between DFID and other Whitehall departments limits heavily their work in this area. While DFID invest millions in tax capacity building, HM Treasury and the Department for Business, Innovation and Skills (BIS) develop and enact policies that reduce international efforts to curb tax avoidance, limiting the abilities of developing countries revenue authorities.

18. The Organisation for Economic Cooperation and Development (OECD) has estimated that developing countries lose more than three times more money to tax havens than they get in overseas aid. PricewaterhouseCoopers (PWC) estimates
that developing countries could increase corporate tax revenues from multinational companies by over 40% if tax evasion through transfer mispricing was tackled.6

19. This is a problem that requires global taxation rules to be reformed, with developing countries as equal partners in such negotiations. In 2013, the UK was pivotal in ensuring that the G8 and G20 mandated the OECD to look at international tax rules, especially transparency issues. The UK has also taken the lead internationally on public registers of beneficial owners of companies.

Ensuring International Tax Rules That Work for Developing Countries

20. As it stands, these processes are led mostly by the Treasury and BIS, and developing countries’ concerns are not largely necessarily addressed. The current wave of international tax rules negotiations, the so called ‘BEPS (Base Erosion and Profit Shifting) process’ does not include developing countries as equal negotiation partners and does not address many developing countries concerns.

21. For example, the BEPS process fails to deal with how the tax base from multinational companies is shared out between countries – residence versus sources taxation - even though this is of vital importance to many developing countries. In fact, the BEPS Action Plan explicitly states that its actions “are not directly aimed at changing the existing international standards on the allocation of taxing rights on cross-border income”.5

22. The government must recognise that a holistic approach is needed and ensure global reform also answers to development needs.

Recommendation 5: The UK should prioritise action to ensure the international tax system addresses the problems faced by developing countries, and ensure that future global efforts to address the problems of international taxation are negotiated with developing countries as equal partners in a more inclusive forum, such as the UN.

Spillover Analysis

23. The interdependence of the international tax system means that changes to the tax rules of one country can have inadvertent impacts (which may be positive or negative) on others. The International Monetary Fund (IMF) has recently published research which suggests that the negative impacts of such “spillovers” are 3–4 times worse for developing than for developed countries.8 To ensure clarity on this kind of impact, and the potential to mitigate negative impacts, the IMF, OECD, United Nations and World Bank have all recommended that “spillover analyses” of all such changes should be conducted by developed countries. Ireland is carrying out spillover analysis of the impact of its tax system on developing countries, and the Netherlands has already done so.

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24. The UK government has not yet committed to assess the impact of its taxation rules on developing countries, although this was a recommendation of the 2012 IDC Report on Tax in Developing Countries.7

Recommendation 6: The UK should carry out a spillover analysis of its current tax rules, and create a legal requirement for all new tax rules and treaties with cross-border effect to be subject to spillover analysis of their effects on the public finances of developing countries.

Controlled Foreign Companies rules

25. As part of a coherent approach to development that goes beyond aid, UK development policy needs to look at the UK’s own tax rules. One area it should prioritise is to toughen the UK’s anti-tax haven (Controlled Foreign Companies) rules. The IDC rightly raised serious concerns about the revised CFC rules which came into effect in 2012 and which no longer serve to deter tax avoidance in countries other than the UK. The current rules cost the UK £900 million a year in foregone taxes and ActionAid estimates they may cost poor countries as much as £4 billion. We believe the CFC rules should be revised to remove those features which remove the deterrent effect of the rules on tax avoidance by UK companies in third countries, including developing countries.

Recommendation 7: The UK should reform its Controlled Foreign Companies rules so that they once again deter tax avoidance by UK companies in developing countries.

Increasing Tax Transparency

26. Finally, the UK should require UK-based multinational companies to publish their profits, taxes paid and other key indicators of economic activity in each country where they do business. This increased transparency would deter tax avoidance by showing if, how and where companies shift profits to avoid taxes. This could potentially be of great benefit to the finances of developing countries and we note that the OECD has recommended such reporting.8 Where we differ from the OECD is that we firmly believe that such reporting by multinationals must be to the public, not just to tax authorities, so as to enable legislators, independent experts, civil society, the media and other concerned citizens to scrutinise them.

Recommendation 8: The UK should require multinational companies to publish their sales, profits, taxes paid and other key data on a country-by-country basis.

Gender equality

Mainstreaming DFID’s Theory of Change for Tackling Violence Against Women and Girls

27. Gender equality is at the core of development. DFID has understood this and has written its Theory of Change for Tackling Violence against Women and Girls (VAWG). But more can be done to apply this to all its work, and measures need to be taken to ensure that this work is not at risk of being deconstructed by other FCO approaches or BIS.

28. DFID’s Theory of Change for Tackling VAWG (ToC) outlines the four specific sets of interventions DFID should pursue to eliminate all forms of VAWG. The challenge now is for DFID to align its programming with the ToC and track impact over time, including monitoring and adjusting individual country programmes, and tracking spending on women’s rights and VAWG, which has been a challenge.

29. Equally, use of the ToC is often patchy and not consistent across and within Government departments. DFID’s ToC should also inform the UK Government’s work on VAWG across all of its international work to ensure there is a consistent and coherent approach. Specifically, the ToC should form the basis of a revision to the international section of the cross-government strategy on VAWG, incorporating the work of the FCO and the Ministry of Defence, as well as the Home Office where relevant. This revised strategy should be complemented with a monitoring framework so progress can be assessed annually.

Recommendation 9: The UK should pursue a coherent and coordinated cross-government approach to addressing VAWG internationally by revising the international section of the cross-government strategy on VAWG and adding a framework for monitoring impacts, to align it with DFID’s ToC.

30. It is a reality that social norm change and empowering women and girls require longer time horizons than DFID programmes tend to work in. They also require dedicated support to the women’s rights organisations (WROs) that are leading innovation and delivery on the ground and are at the forefront of social change around the world – but often on very limited and insecure budgets. Local and nationally led organisations are well positioned to have a more sustainable and long-term impact. DFID therefore needs to be clear about how specific programmes correspond to the ToC, and what changes can be achieved during their lifecycles. DFID also needs to prioritise investing in WROs in ways that mean they can absorb resources and continue to set the agenda.

Recommendation 10: The UK should recognise the catalytic role WROs play in tackling VAWG and embed a commitment to actively support these organisations across policy, programming and funding on VAWG, including by: providing additional, dedicated funding to WROs working on VAWG, and increasing devolved funding for work on VAWG through women’s funds that have strong partnerships with southern WROs.

Increasing cross-Whitehall coordination on VAWG

31. There are a number of parallel government processes that influence the UK’s work on VAWG, particularly in fragile and conflict-affected states including:

- The Cross-Government Violence against Women and Girls Strategy (Home Office)
- The DFID Gender Strategy
- The National Action Plan on UNSCR 1325 Women, Peace and Security (FCO)
- The Building Stability Overseas Strategy (FCO)

32. In addition, recent projects such as the FCO Preventing Sexual Violence in Conflict Initiative (PSVI), while very welcome, have highlighted the importance of ensuring

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cross-Whitehall coordination to ensure that opportunities to empower women and bring about sustainable change are not lost.

**Recommendation 11:** The UK should ensure the ToC is integrated into all of the UK Government’s relevant development, conflict, peacebuilding and humanitarian strategies and workstreams, including the National Action Plan on UNSCR 1325 on Women, Peace and Security, the Building Stability Overseas Strategy (BSOS), and the Joint Analysis of Conflict and Stability (JACS).

**Recommendation 12:** The UK should ensure a member of the National Security Council has explicit responsibility for women, peace and security to ensure gender perspectives are taken into account in all discussions.

33. Policy coherence between these different UK strategies will ensure greater impact and should therefore be strengthened. The Ministerial Champion on Violence Against Women and Girls Overseas, the first post of its kind in the world, has a critical role to play in this effort, especially as its mandate covers the work of all the international departments – DFID, the FCO and the MoD.

34. Successful approaches to preventing conflict and reducing poverty in fragile and conflict affected states benefit from aligning diplomatic, defence and development policies to promote women’s rights and reduce VAWG. Further, a priority focus on women’s rights across the UK’s international agenda would help to ensure delivery on development is not put in competition with or undermined by other important global agendas.

**Recommendation 13:** The UK should ensure the Ministerial Champion on Violence Against Women and Girls Overseas has the access, authority and resources to drive the international section of the cross-government VAWG strategy forward across Government, especially across the FCO, DFID and MoD, and reports annually to parliament on progress.

**Recommendation 14:** The UK should set out a clear plan of action to ensure DFID, the FCO and the MoD are coordinating their efforts to increase the impact and sustainability of the PSVI.